

## Message Text

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51

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 INRE-00 SSO-00 NSCE-00 USIE-00

CIAE-00 PM-03 H-01 INR-05 L-01 NSAE-00 NSC-05 PA-01

RSC-01 PRS-01 SP-02 SS-15 SAJ-01 EB-04 COME-00 TRSE-00

OMB-01 CIEP-01 AGR-05 SWF-01 SIL-01 LAB-01 HEW-02

SCI-02 FEA-00 DOTE-00 DRC-01 /068 W

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O R 181647Z OCT 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 7549

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

USMISSION NATO

DIA WASHDC

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E.O. 11652: GDS

TAGS: PINT, IT

SUBJECT: ITALIAN GOVERNMENT CRISIS

DIA FOR A2 AND D15

PASS TREASURY

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REF: ROME 14360

1. SUMMARY. FANFANI YESTERDAY PRESENTED COMPREHENSIVE DC PROGRAM OUTLINE TO LEADERS OF SOCIALIST, SOCIAL DEMOCRATIC AND REPUBLICAN PARTIES. FANFANI PRESENTATION IS CLEARLY DESIGNED TO ELICIT SERIOUS RESPONSE FROM CENTER-LEFT PARTNERS, AND PARTICULARLY FROM THE SOCIALISTS. DC PROGRAM OUTLINE APPEARS TO INVOLVE SUBSTANTIAL WILLINGNESS TO COMPROMISE ON ECONOMIC ISSUES. DC SOURCES INDICATE THAT SIMILAR FLEXIBILITY MAY BE SHOWN IN DISCUSSING SOCIALIST DEMANDS IN POWER AND PATRONAGE FIELD. SOCIALIST RESPONSE IS EXPECTED FOLLOWING DIRECTORATE MEETING TODAY. SOCIAL DEMOCRATIC SECRETARIAT MEETS OCTOBER 19. END SUMMARY.

2. FOLLOWING FANFANI'S BILATERAL CONSULTATIONS WITH SOCIALISTS, SOCIAL DEMOCRATS AND REPUBLICANS OCTOBER 17, DC CHAMBER GROUP LEADER PICCOLI ANNOUNCED DC INTENTION TO AWAIT RESPONSES FROM OTHER PARTIES TO DC PROGRAM OUTLINE PRESENTED TO THEM ORALLY IN YESTERDAY'S CONVERSATIONS. DC SOURCES AND PRESS LEAKS INDICATE FANFANI HAS PUT TOGETHER SERIOUS AND COMPREHENSIVE POLICY PROPOSALS (BUT NOT A DETAILED GOVERNMENT PROGRAM) DESIGNED TO ELICIT A SERIOUS RESPONSE FROM THE OTHER CENTER-LEFT PARTIES, PARTICULARLY FROM THE PSI. FANFANI, BACKED BY UNANIMOUS DC DIRECTORATE VOTE, SEEMS DETERMINED TO MAKE EVERY EFFORT TO RECONSTITUTE COALITION.

3. ALTHOUGH CONTENT OF LENGTHY FANFANI SPEECH TO DC DIRECTORATE OCTOBER 16 AND OF SUBSEQUENT PRESENTATION TO CENTER-LEFT PARTY DELEGATIONS HAS NOT BEEN PUBLISHED, MAJOR ELEMENTS ARE BELIEVED TO INCLUDE A SUGGESTED APPROACH TO ECONOMIC PROBLEMS, A COMMITMENT TO SOCIAL REFORMS, AND A STATEMENT OF DC POLICY REGARDING RELATIONS WITH THE COMMUNISTS, INTERNAL SECURITY, AND THE ORGANIZATION NECESSARY TO INSURE THE EFFICIENCY OF THE NEW GOVERNMENT.

4. THE PROGRAM OUTLINE EMPHASIZES ECONOMIC ISSUES. DC FLEXIBILITY, HOWEVER, AND WILLINGNESS TO GO HALF WAY TOWARD MEETING PREVIOUSLY EXPRESSED PSI DEMANDS ARE EVIDENT. FANFANI REPORTEDLY INSISTED ON NEED FOR IMPLEMENTATION OF GOVERNMENT'S ECONOMIC STABILIZATION PROGRAM IN ORDER TO FIGHT INFLATION AND DEAL WITH THE BALANCE OF PAYMENTS PROBLEM. HOWEVER, FLEXIBILITY

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ON THE QUESTION OF SELECTIVE CREDIT EASING AND EMPHASIS ON THE NEED TO KEEP UP PRODUCTIVE INVESTMENTS AND PREVENT SUBSTANTIAL UNEMPLOYMENT WERE ALSO REPORTEDLY CHARACTERIZED IN THE PROGRAM OUTLINE.

5. FANFANI ALSO ASSERTED THE NEED TO PRESS ON WITH ESSENTIAL REFORMS AND REPORTEDLY SINGLED OUT THE NEED FOR CONCENTRATION ON THE AGRICULTURAL, TRANSPORT, CONSTRUCTION AND HEALTH CARE

AREAS. HE ALSO CALLED FOR DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES AND FOR TAX MEASURES TO ASSURE THAT THE BURDENS OF AUSTERITY WILL BE DISTRIBUTED EQUITABLY.

6. RELATIONS WITH THE PCI WERE ALSO DISCUSSED AND THE DC POSITION WAS RESTATED, THAT A CLEAR DISTINCTION MUST BE MAINTAINED BETWEEN THE GOVERNING MAJORITY AND THE PCI OPPOSITION AT THE NATIONAL AND LOCAL LEVEL.

7. ACCORDING TO ONE DC SOURCE, FANFANI'S PRESENTATION TO THE DC DIRECTORATE ON THE QUESTION OF INTERNAL SECURITY WAS IMPLICITY CRITICAL OF INTERIOR MINISTER TAVIANI. ACCORDING TO THIS SOURCE, FANFANI EMPHASIZED THAT POLITICAL VIOLENCE FROM WHATEVER QUARTER (AND NOT JUST FROM THE RIGHT MUST BE COMBATTED.

8. FANFANI'S IDEAS ON THE BEST MEANS TO GIVE A NEW GOVERNMENT NATIONAL AND INTERNATIONAL CREDIBILITY REPORTEDLY INCLUDE AN INSISTENCE THAT THE PRIME MINISTER PLAY A MORE VIGOROUS ROLE IN COORDINATING THE WORK OF HIS MINISTERS. ACCORDINGLY, FANFANI IS REPORTEDLY ADVOCATING A REDUCTION IN THE NUMBER OF MINISTRIES AND THE INCLUSION IN THE GOVERNMENT OF SOME QUOTE TECHNICIANS UNQUOTE OF PROVEN COMPETENCE. HE ALSO IS BELIEVED ANXIOUS TO INTRODUCE SOME NEW, YOUNGER FACES INTO MINISTERIAL RANKS AND TO MOVE AWAY FROM THE TRADITIONAL PRACTICE OF DISTRIBUTING POSTS TO SENIOR LEADERS OF PARTY FACTIONS.

9. ONE DC SOURCE HAS TOLD US HE BELIEVES DC WOULD BE WILLING TO GIVE SOCIALISTS HIGH PRESTIGE TREASURY MINISTRY (PREVIOUSLY DENIED THEM) AND MAKE CONCESSIONS ON CREDIT LIBERALIZATION. WHILE OTHER SOURCES DOUBT THAT TREASURY PLUM WOULD BE SURRENDERED, IT IS CLEAR THAT DC WILLING TO DEAL SERIOUSLY IN

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PRESTIGE, POWER AND PATRONAGE FIELD AND AT SAME TIME SHOW FLEXIBILITY ON ECONOMIC ISSUES DEAR TO PSI.

10. DESPITE CONSIDERABLE MINORITY OPPOSITION TO CONTINUING NEGOTIATIONS, FANFANI'S PROPOSALS WERE FAVORABLY PRESENTED BY DEMARTINO TO PSI DIRECTORATE, AND PSI SOURCE HAS TOLD EMBOFF THAT DEMARTINO VIEW WILL PREVAIL. PSDI LEADERSHIP WHILE STILL ATTACKING SOCIALISTS, IS RECEPTIVE TO IDEA OF RE-ESTABLISHING CENTER-LEFT, AND WILL MEET TOMORROW TO CONSIDER FANFANI PROPOSALS. PRI DIRECTORATE IS MEETING MONDAY

AND IS WIDELY EXPECTED TO ACCEPT FANFANI PROPOSALS IN PRINCIPLE, WHILE RESERVING DECISION ON ENTERING GOVERNMENT UNTIL ECONOMIC PROGRAM IS NEGOTIATED. IF THE SOCIALIST PARTY REACTION IS POSITIVE, FURTHER MEETINGS LEADING TO JOINT, FOUR-PARTY

CONSULTATIONS ARE EXPECTED NEXT WEEK. VOLPE

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